

Fairfax County Economic Index

Volume IX, Number 11

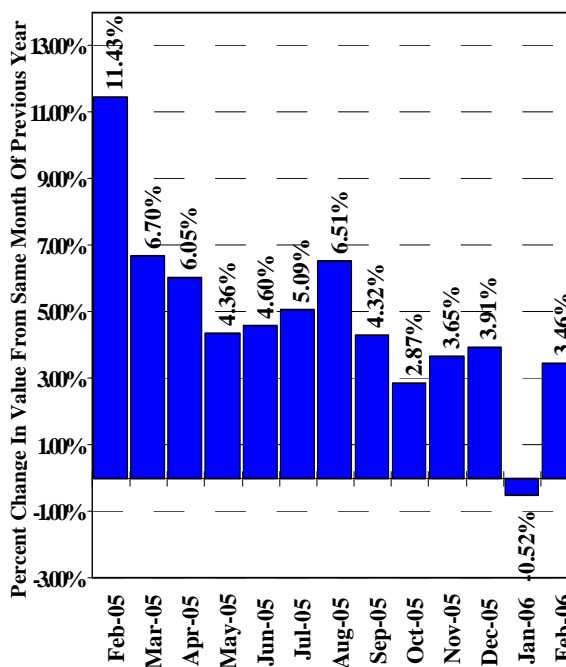
April 2006

The Fairfax County Economy Continued To Expand in February

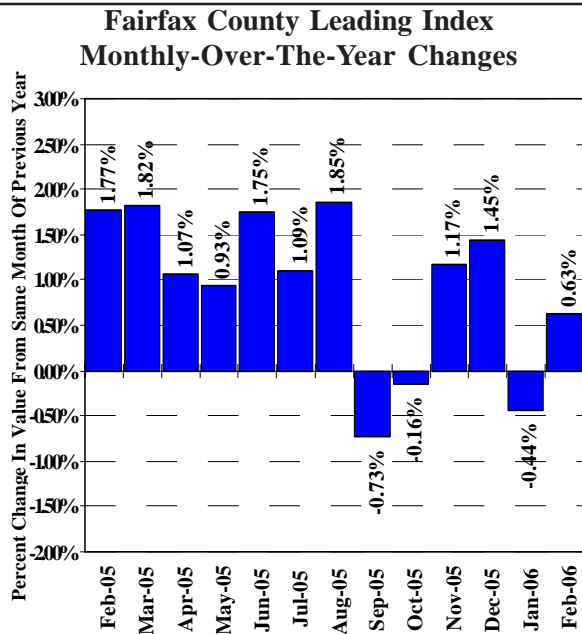
The **Fairfax County Coincident Index**, which represents the current state of the County's economy, increased to 136.45 in February for a gain of 0.89 percent. On a monthly over-the-year basis, the Coincident Index was up 3.5 percent reversing January's decline in the Index. The Index has increased monthly over-the-year in twenty-six of the past twenty-seven months (January 2006 was the sole negative month). In February, three of the Index's four indicators were positive.

- Total employment increased for a second month;
- Consumer confidence (in the present) was up for a fourth month; and,
- Transient occupancy tax collections, adjusted for inflation and seasonal variation, registered a strong gain following three monthly declines; while,
- Sales tax revenues, adjusted for inflation and seasonal variation, declined for the third time in four months.

**Fairfax County Coincident Index
Monthly Over-The-Year Changes**



Source: Center for Regional Analysis, George Mason University



Source: Center for Regional Analysis, George Mason University

The **Fairfax County Leading Index**, which is designed to forecast the performance of the County's economy nine to twelve months in advance, increased to 109.12 in February for a gain of 1.37 percent. This month-to-month increase resulted in a monthly over-the-year increase in the Index, its third in four months after decreasing in September and October. Prior to September 2005, the Leading Index had registered 29 consecutive monthly over-the-year increases. In February all three of the Index's component indicators contributed to its gain, just the opposite of its performance in January.

- Automobile registrations increased in February after declining January;
- Initial claims for unemployment insurance decreased (improved) following two months of increases; and,
- Consumer expectations (consumer confidence six months hence) increased following two monthly declines and has now been higher in three of the last five months.

The Fairfax County economy showed broad-based strength in February after its end-of-the-year slowdown. With its Leading Index moving higher again and the Coincident Index re-establishing its steadied pace of growth patterned after the September-December period from last year, it appears as if the County's economy has weathered the winter and is back on course. Still, its volatile monthly swings point to its

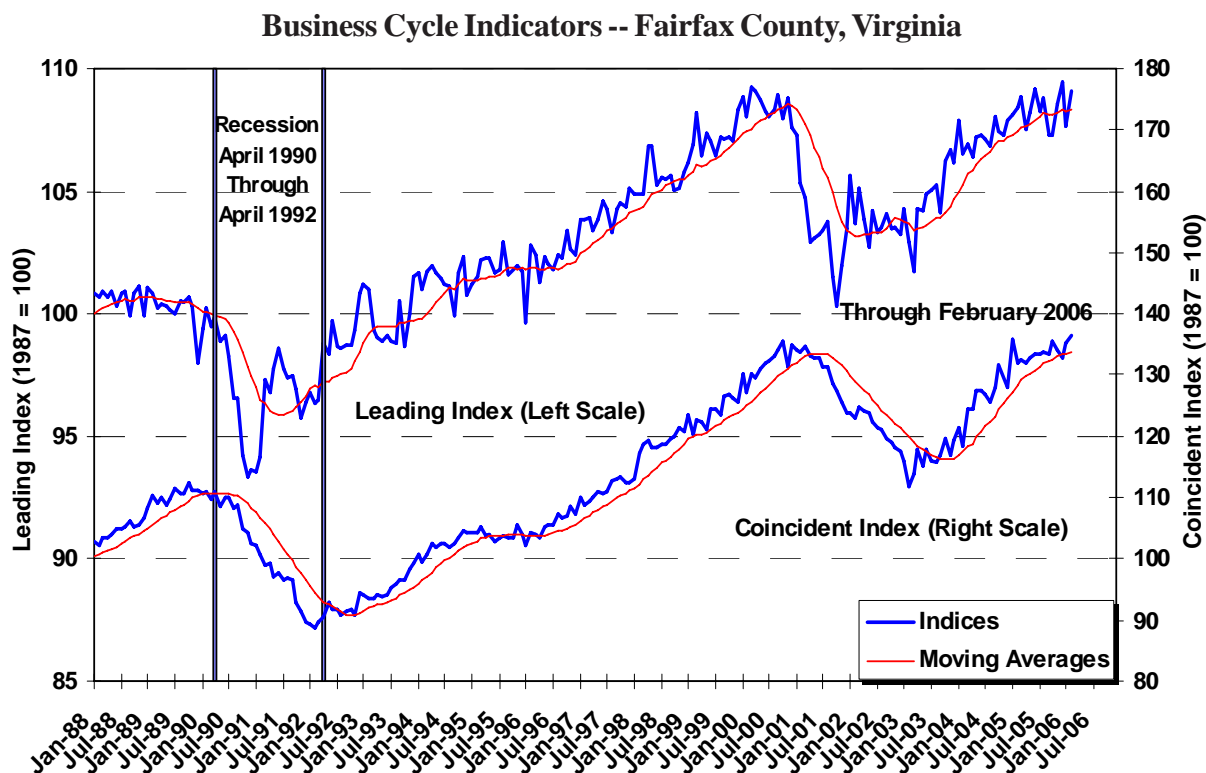
increased sensitivity to external events, both regional and national, that could impact its performance later in the year. Among the major threats to its continuing expansion are labor resource availability, inflationary pressures and concomitant interest rate adjustments, and rising energy costs.

CURRENT CONDITIONS

The two interrelated drivers of the County's economy remain job growth and consumer spending. Job growth in February was an extension of its last year's performance. With an estimated addition of almost 23,000 new jobs for the year ending in February, the County's employment base grew 3.8 percent. This strong gain is reflected in the County's other labor market indicators. Initial unemployment claims fell 23 percent from January on a seasonally adjusted basis and was 4.7 percent lower than in February 2005. Unemployment was 2.3 percent, well below the 3.1 percent for the Washington metropolitan area, the lowest among the major labor markets nationally. In February 2005, the County's unemployment rate was 2.6 percent.

This continuing job growth in the County is outpacing its ability to supply new workers from among its residents. This growing dependency on non-local workers is seen in the slower growth of employed County residents than the growth of the County job base. For the year ending in February, 15,980 more residents of Fairfax County were employed for a gain of 2.5 percent. If all of these 15,900 new resident workers were working in the County, they would still have left 30 percent of the County's new jobs unfilled. Attracting sufficient numbers of qualified workers will become increasingly challenging resulting in unfilled jobs and the loss of output as well as growing and inflationary wage pressures. These higher wages and longer job vacancies will dampen the expansion not only in Fairfax County but also throughout Northern Virginia, which has accounted for two-thirds of the metropolitan area job growth over the last two years.

Consumer spending supports approximately two-thirds of the County's (and nation's) total output value. Strong job growth and the income gains it supports should be reflected in strong consumer spending as it has been over the past several years. But consumers have been increasingly worried about the future as seen in low and often slipping consumer expectations. With interest rates rising and consumer debt growing, consumer spending is slowing. This



Source: Center for Regional Analysis, George Mason University

slowdown is seen in slower housing sales as well as weaker retail and automobile sales. In Fairfax County, seasonally adjusted retail sales were down 17 percent in February from January and were also 2.0 percent lower than in February 2005. Even though automobile sales were up in February they have been lagging for much of the past year. In spite of their sharp increase from January, February 2006 automobile sales were still 4.7 percent lower when compared to February 2005.

This slowdown in consumer spending is probably temporary. As consumer income grows and consumers adjust their debt loads spending should increase later in the spring. If this spending is sustained through the year as projected, it will extend the economy's expansion into next year. However, with energy prices setting new record highs as County residents enter the normally higher travel period, this diversion of spending away from retail sales to gasoline purchases could be the undoing of the County's overall economic growth projected at 4.25 percent this year.

NEAR-TERM OUTLOOK

The Leading Index rebounded strongly in February and resumed its upward trend that dates from

the beginning of 2003. Job growth follows (lags) the economy's expansion but also fuels consumer spending that in turn helps to propel the economy's future growth. At present the indicators are pointing to further expansion that should be broadly reflected in higher retail sales, growing tourism, and continued income growth.

However, the threats to the expansion's continuation into next year are significant. Inflationary pricing of labor and consumer goods (due to both higher labor and energy costs) will dampen growth going forward but the greatest and most immediate threat is \$70 or more per barrel oil prices. This year's economic growth forecasts for the nation (3.3%), the Washington region (3.8%) and Fairfax County (4.25%) reflect oil prices in the low \$60s (per barrel) with lower than \$60 per barrel in 2007. Higher oil costs will be passed through the economy over the next six months resulting not only in a diversion of consumer dollars away from normal spending patterns to gasoline purchases but also higher prices for goods and services causing inflation to accelerate. Higher inflation rates will generate further increases in interest rates and slower economic growth. While this scenario may sound pessimistic its likelihood is increasing.

Fairfax County, Virginia Economic Indicators Current and Previous Months

Economic Indicator	Estimates			Percent Change	
	Feb-06 Prelim.	Jan-06 Final	Feb-05 Final	Jan-06 to Feb-06	Feb-05 to Feb-06
Fairfax County Business Cycle Indicators					
Coincident Index (1987 = 100)	136.45	135.25	131.89	0.89	3.46
Leading Index (1987 = 100)	109.12	107.64	108.43	1.37	0.63
Fairfax County Coincident Index Components					
Estimated Total Wage & Salary Employment (Seasonally Adjusted)	629,159	628,131	606,332	0.16	3.76
<i>Estimated Total Wage & Salary Employment (Unadjusted)</i>	<i>620,854</i>	<i>619,921</i>	<i>598,328</i>	<i>0.15</i>	<i>3.76</i>
Transient Occupancy Tax (\$'000='87, Smoothed, Seasonally Adjusted)	815	718	767	13.48	6.34
<i>Transient Occupancy Tax (\$'000=Current, Smoothed Only)</i>	<i>1,520</i>	<i>1,292</i>	<i>1,383</i>	<i>17.64</i>	<i>9.93</i>
Sales Tax Receipts (\$'000='87, Seasonally Adjusted)	8,068	9,767	8,231	-17.40	-1.99
<i>Sales Tax Receipts (\$'000=Current, Unadjusted)</i>	<i>10,950</i>	<i>10,952</i>	<i>10,758</i>	<i>-0.02</i>	<i>1.78</i>
South Atlantic Consumer Confidence	150.6	147.8	138.0	1.89	9.13
Fairfax County Leading Index Components					
New Automobile Registrations (Seasonally Adjusted)	5,697	5,107	5,980	11.56	-4.73
<i>Automobile Registrations (Unadjusted)</i>	<i>4,571</i>	<i>4,295</i>	<i>4,798</i>	<i>6.43</i>	<i>-4.73</i>
Initial Unemployment Claims (Seasonally Adjusted)	798	1,037	934	-23.04	-14.53
<i>Initial Unemployment Claims (Unadjusted)</i>	<i>865</i>	<i>1,462</i>	<i>1,012</i>	<i>-40.83</i>	<i>-14.53</i>
South Atlantic Consumer Expectations (Unadjusted)	102.9	101.5	109.2	1.38	-5.77
Fairfax County Labor Force					
Total Labor Force (Seasonally Adjusted)	597,730	600,002	583,016	-0.38	2.52
<i>Total Labor Force (Unadjusted)</i>	<i>592,297</i>	<i>592,880</i>	<i>577,717</i>	<i>-0.10</i>	<i>2.52</i>
Employed Labor Force (Seasonally Adjusted)	584,059	586,358	568,079	-0.39	2.81
<i>Employed Labor Force (Unadjusted)</i>	<i>578,910</i>	<i>579,204</i>	<i>563,071</i>	<i>-0.05</i>	<i>2.81</i>
Unemployed Labor Force (Seasonally Adjusted)	13,672	13,643	14,938	0.21	-8.48
<i>Unemployed Labor Force (Unadjusted)</i>	<i>13,387</i>	<i>13,676</i>	<i>14,646</i>	<i>-2.11</i>	<i>-8.60</i>
Unemployment Rate (Percent, Seasonally Adjusted)	2.3%	2.3%	2.6%	--	--
<i>Unemployment Rate (Percent, Unadjusted)</i>	<i>2.3%</i>	<i>2.3%</i>	<i>2.5%</i>	<i>--</i>	<i>--</i>

Notes: Where available, seasonally adjusted estimates are used in the indices. In addition, those expressed in dollar value (Building Permit Value, Transient Occupancy Tax, and Sales Tax) are expressed in constant 1987 dollars. Initial Claims are inverted prior to inclusion in the Leading Index; that is, an increase in claims results in a decrease in the index and visa versa. Because of its quarterly collection schedule, the Transient Occupancy Tax is smoothed. Unadjusted data (*italics*) and Fairfax County Labor Force data are not included in either index, but are shown for informational purposes. All percent changes are calculated from unrounded data. In September 2004, the Transient Occupancy Tax was increased from 2% to 4%. All original values prior to September 2004 were doubled for consistency.

Prepared by:
Center for Regional Analysis
George Mason University
<http://cra.gmu.edu>

We are on the web at:
[www.co.fairfax.va.us/comm/
economic/economic.htm](http://www.co.fairfax.va.us/comm/economic/economic.htm)

Inquiries should be directed to:

The Fairfax County
Department of Management and Budget
12000 Government Center Parkway, Suite 561
Fairfax, Virginia 22035-0074
(703) 324-2391 or 1-800-828-1120 (TDY)